

AGENDA ITEM



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: PCE/TCE Water Rate Increase Issues
MEETING DATE: August 2, 2005 (Special Meeting)
PREPARED BY: Public Works Director

RECOMMENDED ACTION: That the City Council review and discuss issues related to the proposed PCE/TCE water rate increase and provide staff direction as appropriate.

BACKGROUND INFORMATION: The proposed PCE/TCE water rate increase is generating significant public discussion. In the interest of providing additional information to both the Council and the public, staff is preparing supplemental information to that presented at the previous Council meeting. The additional information will focus on:

- The PCE/TCE cleanup program
- Financial factors supporting the rate increase
- Additional public information to be provided in the form of a "Frequently Asked Questions" information sheet

FISCAL IMPACT: Not applicable.

FUNDING AVAILABLE: Not applicable.

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Richard C. Prima, Jr.
Public Works Director

RCP/pmf

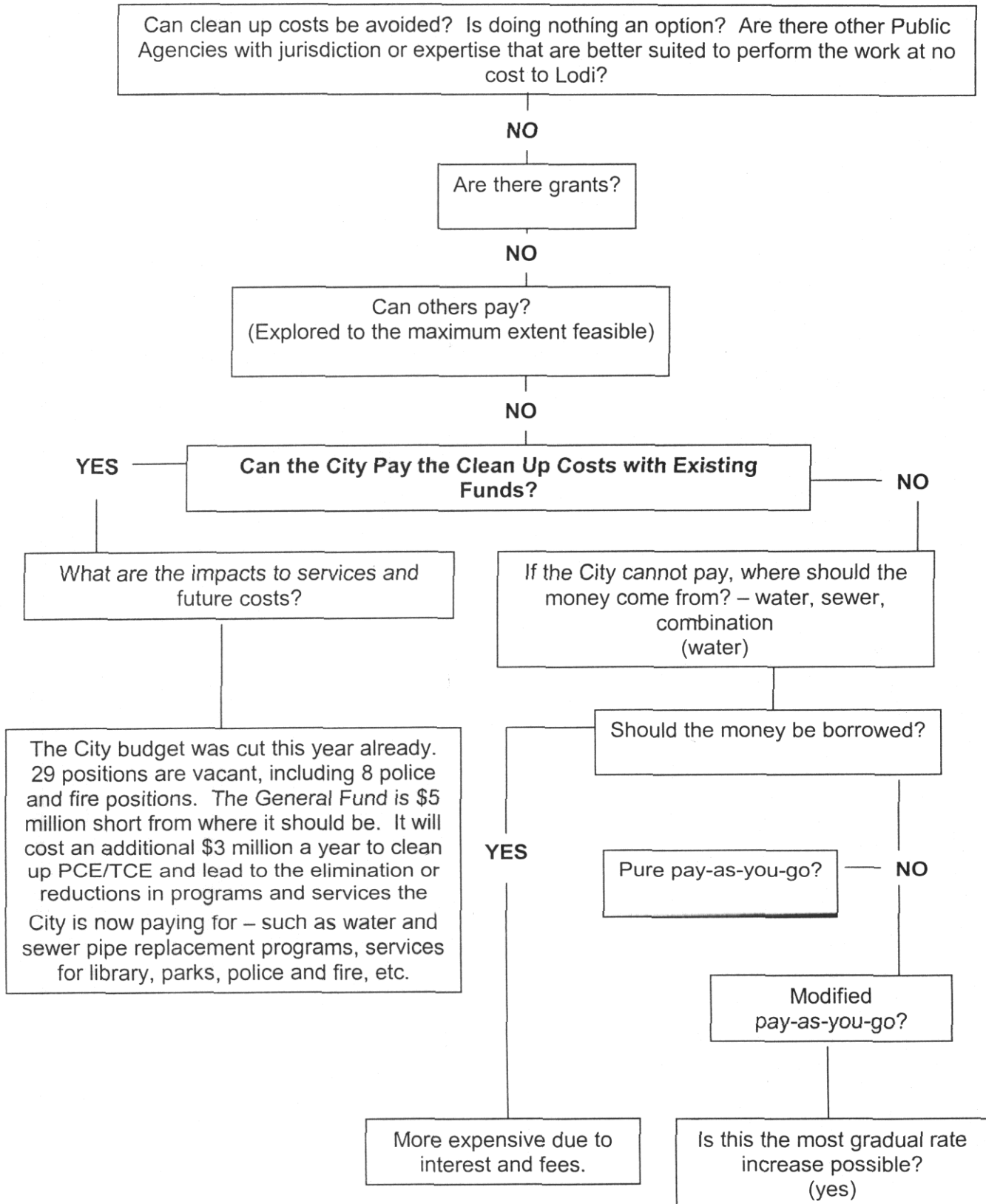
APPROVED:

A handwritten signature in black ink, appearing to read "Blair King", written over a horizontal line.

Blair King, City Manager

filed 8-2-05

PCE/TCE DECISION TREE

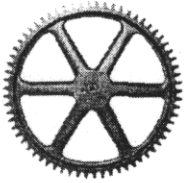


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City of Lodi

Funding of PCE/TCE Groundwater Remediation




August, 2005
City of Lodi staff

BARTLE WELLS ASSOCIATES





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All-In Costs of PCE/TCE

- Net cost of implementing remediation plan is estimated to be \$45.7 million and includes capital, operating, legal expenses, and settlements due to other parties less settlement revenues due to the City
- Above costs include pay back of past expenses (total \$12.2 million, which includes \$1.9 million of expenses owed to the sewer utility)





Rate Increase Alternatives

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- Three rate alternatives were considered:
 - Pure rate funding on a pay-as-you-go annual basis
 - Modified smooth pay-as-you-go, use of cash and reserve from rate increases
 - Long-term financing, use of cash from rate increases plus revenue bonds
- BWA recommends the modified pay-as-you-go alternative
 - Minimizes long-term costs
 - Minimizes annual rate increases
 - Provides predictable rates



Recommended Alternative

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- Use cash from settlements and rate increases (no borrowing)
- Re-pay accrued expenses
- Increases are phased-in
- Rates for 3-bedroom home
 - January 1, 2006 add \$3.50 (\$30.33/month)
 - July 1, 2006 add \$3.50 (\$33.83/month)
 - July 1, 2007 add \$3.50 (\$37.33/month)
 - Adjustment each July 1 to account for changes in Consumer Price Index





Rate Survey

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Lodi Water Rate Survey

Agency	Est. Monthly Bill
	Current
City of Lathrop	\$48.92
City of Escalon	33.18
City of Manteca	31.35
City of Stockton	29.90
City of Tracy	26.85
City of Lodi	26.83
City of Ripon	19.87



What is The Problem?

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- PCE and TCE are harmful
- They are in the soil (which means vapors can enter buildings)
- They are in the groundwater at levels greatly exceeding drinking water standards
- The City's water system is interconnected, so **if** contaminated water is drawn into a City well, it will be spread throughout the City. (some wells are showing traces)



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What is the Clean up?

- Soil Vapor Extraction (SVE) – vacuum fans remove vapors from soil above groundwater via special wells; vapors removed from air with carbon or other methods
- “Sparging” – Injection of air bubbles or ozone in groundwater to trap vapor and carry to PCE to the soil above where it is removed by SVE

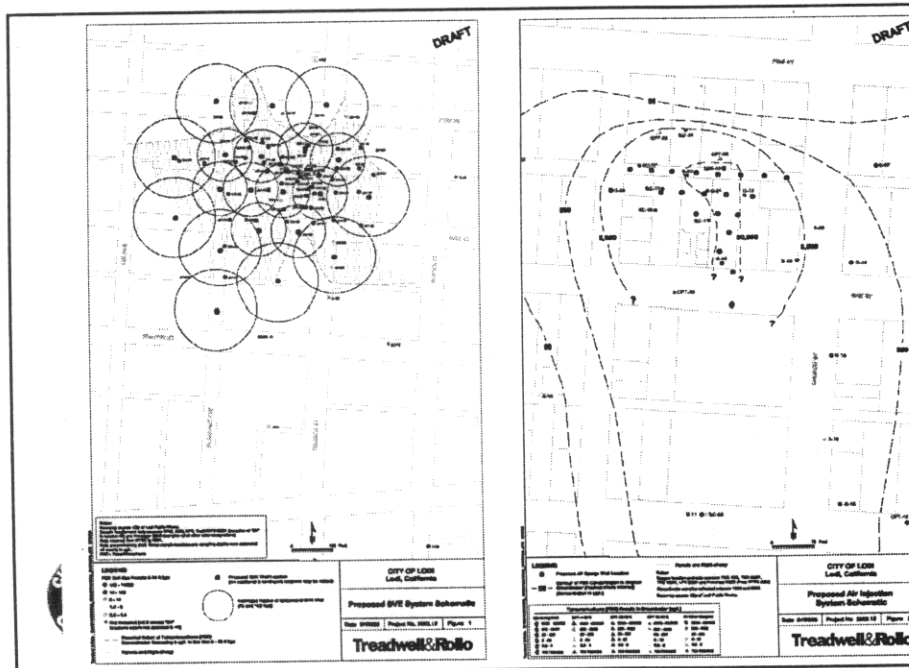
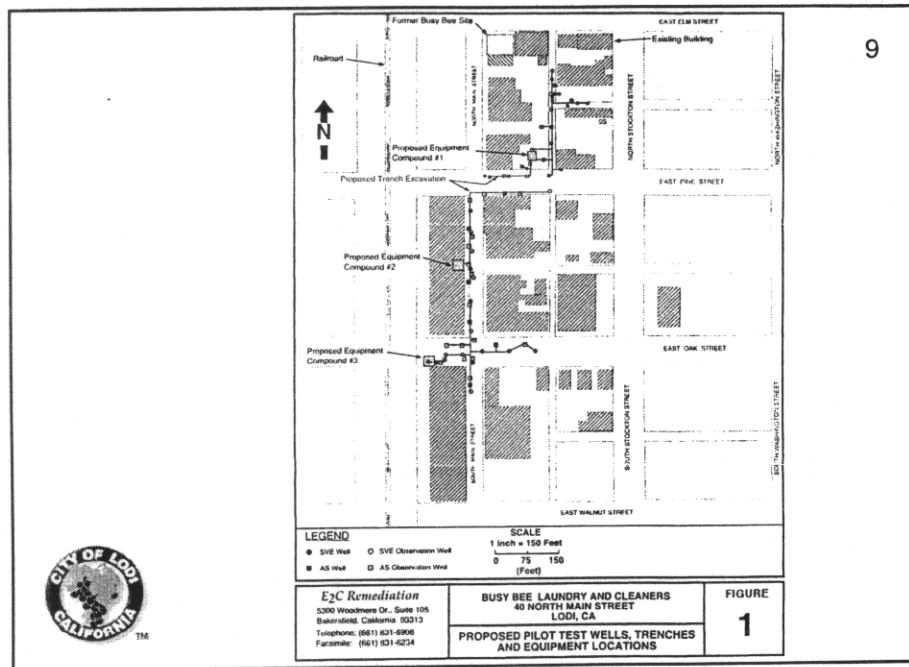


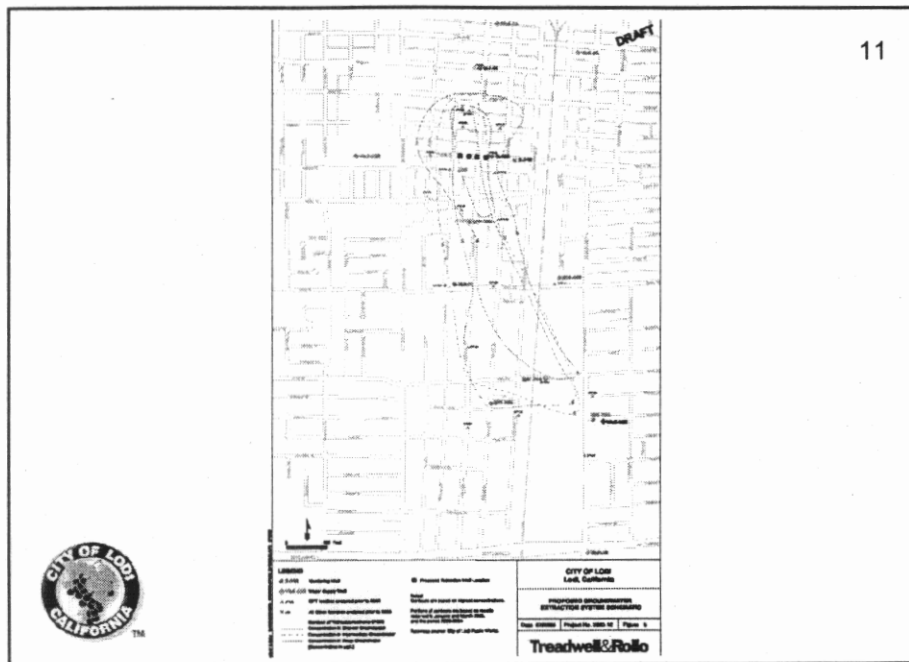
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What is the Clean up?

- Groundwater Extraction – pumping groundwater containing PCE and removing from the water with carbon or other methods
- Ongoing monitoring and reporting
- SVE/Sparge could run for five years
- Groundwater extraction will take 30 +/- years





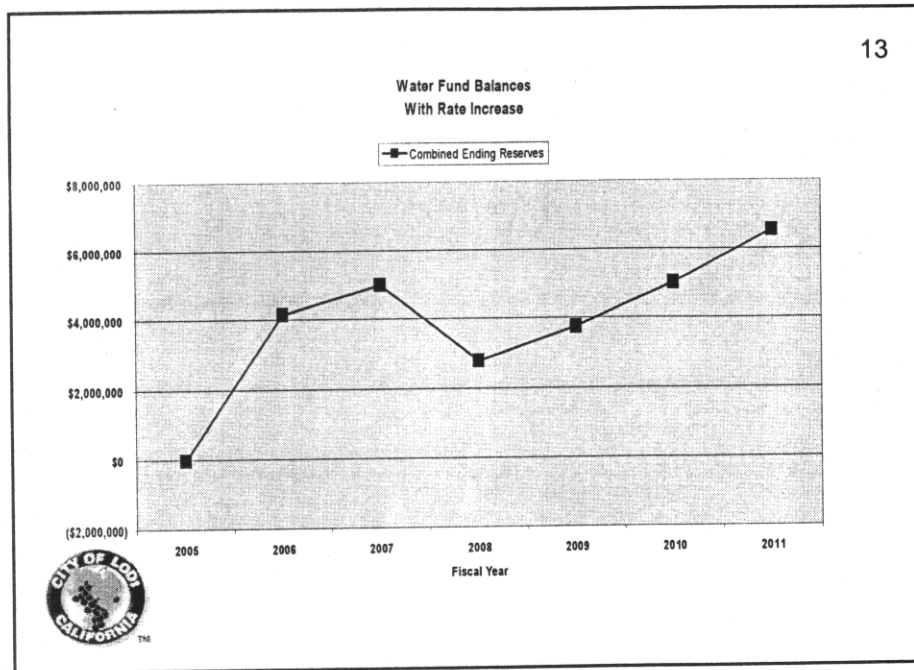


Other Factors in Recommended Rate Increase

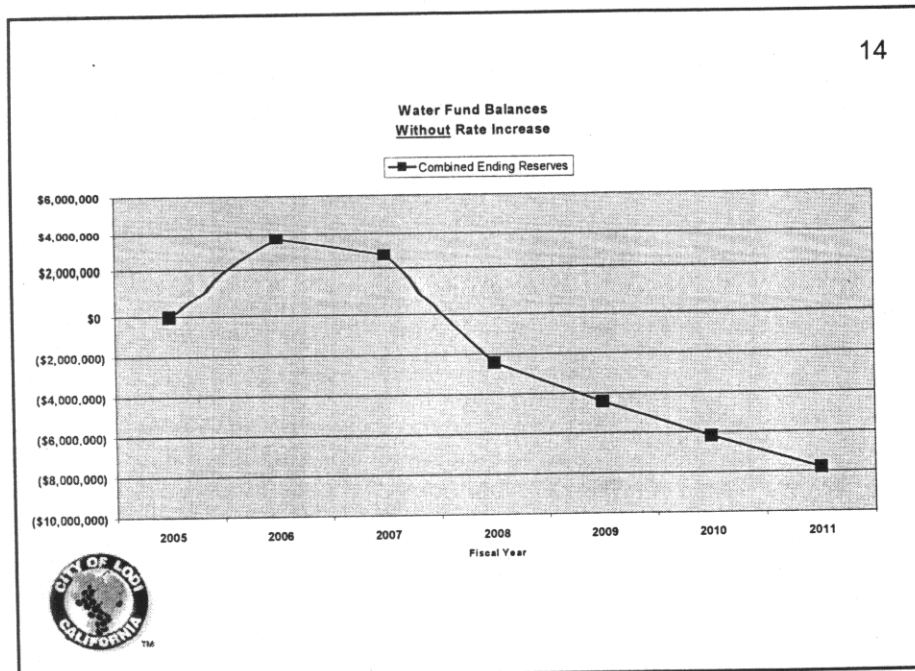
- Water Enterprise should not rely on General Fund for support
- Account for PCE costs in separate “sub-fund”
- Maintain combined *minimum* 15% reserve in operating, capital and cleanup funds (should be higher)



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"Frequently Asked Questions"

1) What? Another Increase?? Why???

The City is proposing to increase water rates to pay the cost of cleaning up contaminated groundwater. Lodi must clean up its groundwater for several reasons. One, the City needs to ensure that its citizens have a reliable clean safe source of drinking water. Two, the obligation to clean up the water has been imposed upon the City by the Central Valley Water Resources Control Board, a state agency. Three, the City through legal settlements has promised to clean the groundwater.

2) What's with this groundwater contamination business? We were told this would not cost the City anything?

The groundwater supply for Lodi has been contaminated by PCE/TCE. These are chemicals used in some dry cleaning and various industrial operations.

In order to defray the cost of clean up, the City sued businesses, property owners and insurance companies to recover costs associated with removal and treatment. The City will receive over \$16 million in settlement money from other parties (and hopes to recover more). Due to court decisions, bankruptcies, insurance exclusions, closed businesses, deceased responsible parties, etc; the amounts recovered will be substantially short of full cost. Based on current estimates, an additional \$45 million is needed.



"Frequently Asked Questions"

3) 45 Million!!! Why so much?

This cost is total for the whole cleanup program – one-time costs for design, equipment, materials and installation; technical and legal expenses; plus ongoing operations and maintenance for an estimated 30 years. The area to be cleaned up is very large; extending from Turner Road to south of Kettleman Lane (two miles long) and is nearly a mile wide. The contamination is in soil and groundwater over two hundred feet deep. Clean up costs include drilling specialized wells, installing extraction, treatment and monitoring equipment, electricity to operate the systems and professional fees related to design, reporting, and accounting.

4) Does this include paying back the money the City borrowed from Lehman to pursue the litigation?

No, that issue has been settled. The City borrowed about \$15 million over the course of the litigation and with interest the total owed was about \$32.9 million as of last year. The City negotiated a settlement with the lender and paid \$7.9 million of the principle and none of the interest to close this loan. However, the City is proposing to replenish the money used from its own internal accounts in the Water and Wastewater Funds.



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"Frequently Asked Questions"

5) Doesn't this contamination only affect part of the town?

No, the City's sole source of water is from groundwater and the water system is interconnected. Any well that becomes contaminated affects the entire system. Also, the contaminated area is very large – over two miles long and up to a mile wide – in the center of the City.

6) What about using other City money or grants?

Although our elected officials at all levels of government have been sympathetic to Lodi's situation, no federal or state agency has provided the funds necessary to clean up Lodi's water supply.

Lodi has looked at other possible sources of revenue as well. The other source of funding that the City considered is its discretionary budget, the City's General Fund. General Fund revenues come primarily from property and sales taxes and those are largely controlled by the State. (That would be the State that teetered on bankruptcy a year ago..., and remember, the City only receives about 17¢ from each dollar you pay in property taxes and 1¢ of the sales tax.)

The General Fund provides for the Police Department, Fire Department, Parks, Economic Development, and a variety of other city services. The General Fund budget was already cut by 7% in this current fiscal year. Twenty-nine positions were left unfilled, including eight in the Police and Fire Departments. Funding this additional cost out of the General Fund means significant additional cuts in programs and personnel from the General Fund.



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"Frequently Asked Questions"

As for "other City money", the Sewer Fund is committed to wastewater treatment upgrades and pipe replacements. The Electric Fund revenue can not be used to clean up the ground water. Transportation funds are dedicated by law and cannot be used for the clean up.

One final option considered was to eliminate expenditures for the water and wastewater capital replacement program. This means redirecting revenue from the infrastructure replacement charge that is in the water and sewer bill to PCE/TCE clean up. Making this change stops the replacement of old, leaky pipes and increases long term costs for water and sewer. This seems counter-productive given that the Regional Board determined that the City was partly liable for the clean up because of its leaky sewers.



"Frequently Asked Questions"

7) So what does this add to my bill?

Rates for a typical 3-bedroom home would increase \$3.50 per month on January 1, 2006, another \$3.50 on July 1, 2006, and a final \$3.50 on July 1, 2007. (\$10.50 in total) Increases for other customers range from \$2.09 for a one-bedroom apartment to over \$30 for a commercial customer. For the sake of comparison, a case of bottled water costs between \$5 to \$6 plus CRV. The full rate table is available at City Hall or on the City's website: www.lodi.gov

8) Wow, we'll have the highest water bills in the County!?!

Actually no; most of the other cities are metered, so comparisons can only be estimated. Using other city's water rates and an assumed monthly use for a typical Lodi residence, Lodi's current rate is next to the lowest. With all the planned increases, it will be near the high end assuming other cities do not raise their rates in the next two years. (This comparison is also on the City's website as part of the presentation from our rate consultant.) While the City cannot speak for these other communities, one might expect that their water rates will also go up over the next two years.



"Frequently Asked Questions"

9) What was done to minimize the impacts of water rate increases?

The proposal is to establish a gradual rate increase spread out over the longest period of time possible, 2 years, while avoiding the need to borrow money to pay for the initial cleanup costs. While the costs of the clean up program are spread over 30 years, the bulk of the costs are in the first few years.

10) What other water rate structures were considered?


Money could be borrowed from an outside source, but that would add financing and interest costs.

Another alternative would be to adjust the rates each year based on actual expenses.

Doing this would mean a large increase to build up a reserve for the first year's expenses, and then setting the rate up or down each following year. With this alternative rates could easily double for a few years before they could go down.

Many times the City has been asked to keep rate increases at smaller, more frequent amounts so they can be anticipated. The plan is to reduce the proposed \$3.50 increases in the future once the clean up is in "maintenance" mode and the past expenses have been paid back. The proposed increase includes provisions for official reporting of the clean up expenses so this will not be overlooked.





13) Well, this is all fine, but that doesn't do me much good. I'm on a fixed income and will have trouble paying this increase. What is being done about this?

The City has a number of utility discount and assistance programs, some in cooperation with the Salvation Army. These discounts would apply to this increase as well.


14) This is still all too much; why do we have to deal with this anyway? Can't we make it go away?

As the water provider, the City has the final responsibility to provide safe, clean water to its customers. This would be the same if service was provided by a private water company. In addition, the State has ordered clean up. Non-compliance would mean substantial fines and penalties and the clean up would still need to be done.

15) I still have more questions – whom should I call?

Contact the Public Works Department at 333-6706.

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11) You're still charging residences per bedroom – this isn't fair.

Yes, however prior to establishing the "per bedroom" rate, residential rates were averaged across all users – a one-bedroom bungalow paid the same as a seven-bedroom mansion. Unfortunately the only fair way to charge for water use is based on the amount you use – and that requires meters. The State of California has now mandated retrofitting of water meters. This year's budget includes an initial purchase of meters to determine usage on a large group of residential customers in order to establish a rate that will, for the average user, be comparable to the flat rate. Then customers who use more than average will pay more and those who use less will pay less once we begin billing based on metered use.

12) What about other cost increases coming down the line: for example, what will it cost to use the Woodbridge Irrigation District surface water we have purchased?

The City has established a policy of reviewing water and sewer rates annually and making adjustments based on the Consumer Price Index. These "cost of living" type increases will help keep rates at a level that should avoid big jumps in the future and be predictable.

As for the surface water, that is still uncertain. First, a decision needs be made as to how the water will be used. Groundwater recharge will be less expensive than building a treatment plant and using the water directly. However using the water directly is the way most cities use surface water – but it does mean switching to full time disinfection of our water, which would require chlorination at some minimal level. More information on this issue is on the City's website and will be discussed with the City Council in the near future.

Other way, some of the cost of using this water could be paid by new development. This would reduce the impact on current ratepayers.

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